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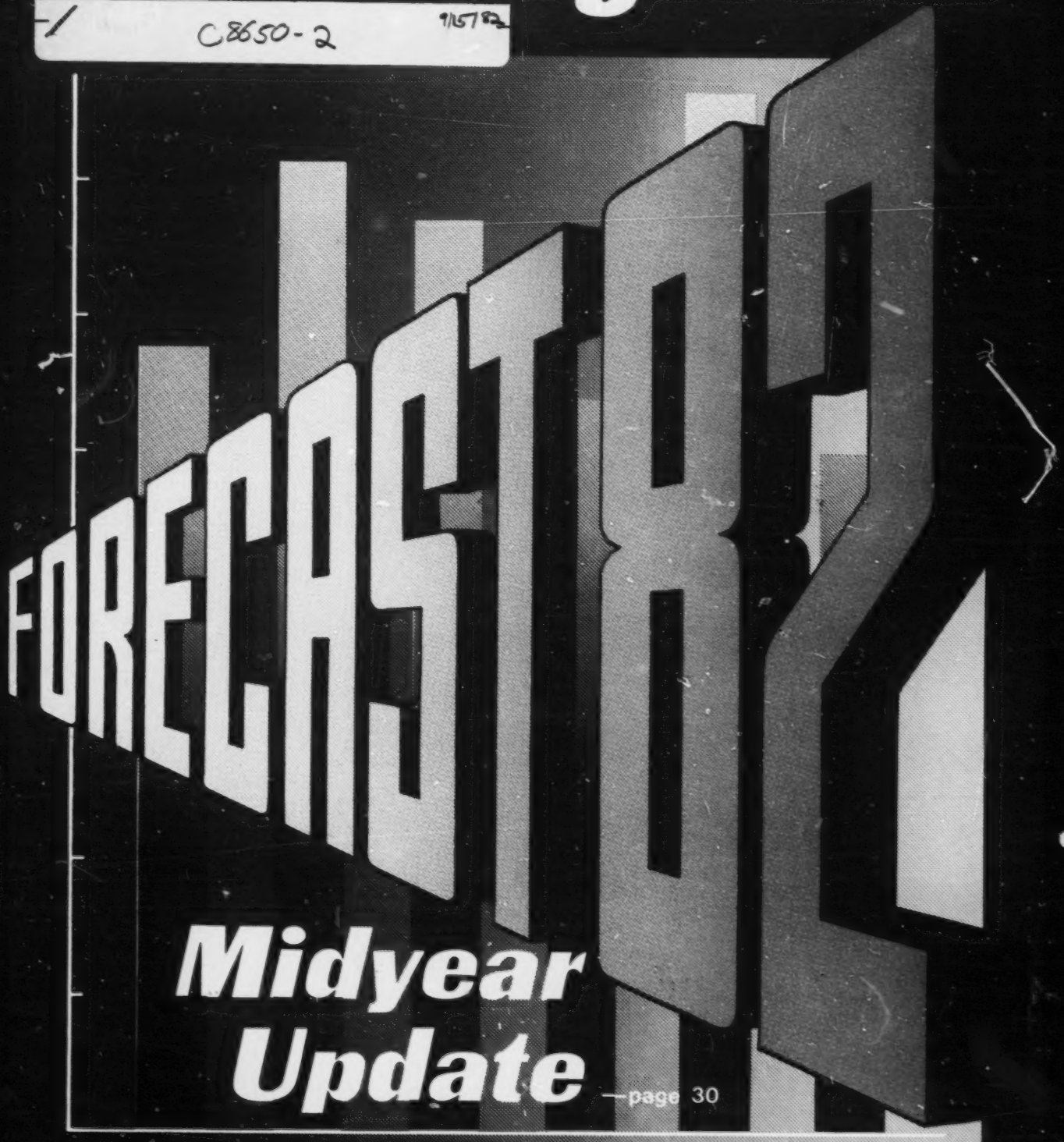

Midyear Update

—page 30

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PurchasingWorld®

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Helping you manage the business of buying

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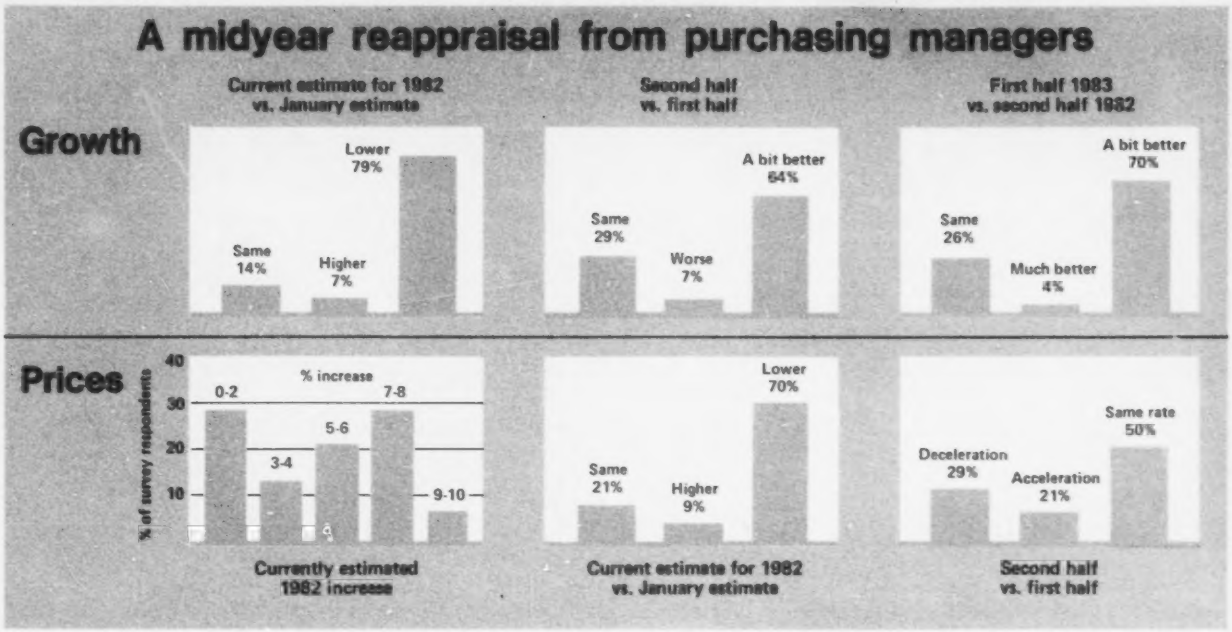


Purchasers revise forecasts, expect slow second half

The nation's purchasing executives have been taking a good, hard look at their earlier 1982 demand and price projections, and, not surprisingly, they're making some significant mid-course corrections.

As one Midwestern purchasing vice president puts it, "We always make some adjustments, but this year it's more than just a few changes. Our current forecast bears little resemblance to the one we made back at the end of last year."

Multiply his comments by many similar ones made from PMs responding to *PurchasingWorld*'s latest nationwide survey, and it becomes clear that managing a purchasing department is no bed of roses these days—despite the ready availability of most goods.

Some of the more specific findings of the just-completed study:

■ **Current price estimates:** A fairly significant 29% feel that they can hold their overall 1982 procurement price increase to 2% or under. Even more impressive, about two out of every three say the advance will be 6% or less. All told, the average 1982 increase is now put at only around 5%.

■ **The downward price revision:** Some 70% of the respondents say that their current estimates are lower than beginning-of-year projections. Only 9% have been forced to make some upward adjustments.

■ **Second-half price trends:** No major change in the current pattern is anticipated over the next six months. About half of the respondents now see the second half of 1982 as a carbon copy of the first half, and the remainder are about equally split between those expecting some deceleration and those expecting some acceleration.

■ **Current demand estimates:** Close to 40% of queried buyers now feel that their firm's overall 1982 activity will drop under last year's levels—a far cry from the 7% who felt that this would be the case at the beginning of the year.

■ **Downward growth revision:** All told, an overwhelming 79% have lowered their growth sites for 1982—far outweighing a miniscule 7% who still feel they might yet better their earlier projections.

■ **Future growth:** Any nearterm improvement is expected to be quite modest. While 64% feel the second half may be a bit better than year-to-date experience, not a single respondent sees any really major gains over the third and fourth quarters. And the pattern is similar for early 1983. Indeed, despite some of the relatively optimistic forecasts coming out of Washington these days, only 4% are betting that the first half of next year will be "much better" than the second half of 1982.

■ **Inventories:** The less-than-sensational demand outlook is also being reflected in inventory strategy. Plans for the next six months here: modest paring (64%), substantial paring (14%), and no change (22%).

Many PMs say they're using the current buyer's market to nail down favorable longterm commitments. Emphasis is on pacts with longer fixed-price guarantees and toned-down escalation clauses.

And with good reason. Most buyers feel that the current favorable procurement won't last forever. Few see major price acceleration over the next few quarters, but most are reconciled to a somewhat faster rate of increase in early 1983 as demand slowly picks up and vendors move to beef up today's sagging profit margins.

On the other hand, few anticipate any return to double-digit inflation. Citing somewhat lower wage rates, import competition, and operating rates that will be lucky to climb back into the low 80s next year, they see 1983 price hikes remaining in the relatively moderate 6-8% range. ***PW***

PW Predicts...

By Robert S. Reichard, prices, economics editor

Good buys in machinery

Market softness is spilling over into the machinery and equipment sectors.

A look at overall machinery quotes—as measured by Uncle Sam's Producer Price Index—tells the story. Where last year at this time tags were rising at about an 8% annual rate, they are now advancing by only 3-4%.

Nor do the official indexes indicate the extent of the weakness. There is now significant discounting in the machine tool area where orders are rising at only about half the yearago pace. Types of machines said to be particularly weak include numerically controlled lathes, machining centers, turning machines and grinders.

Some buyers say that outright discounts of up to 25% are now being offered in some of these lines—in addition to such unofficial price shading as freight concessions and easier credit terms.

There are good import buys, too—with average tags on incoming metalworking equipment off about 1½% over the first quarter of the year. Low-priced copies of U.S. tools (especially from Taiwan and Korea) are also said to be increasingly available.

Overseas competition is also a major factor in the office equipment sector where first quarter import tags were down an average of 2%. The Japanese are a major factor, here—as they strive to break into the microcomputer area. There are good buys on overseas copiers, too.

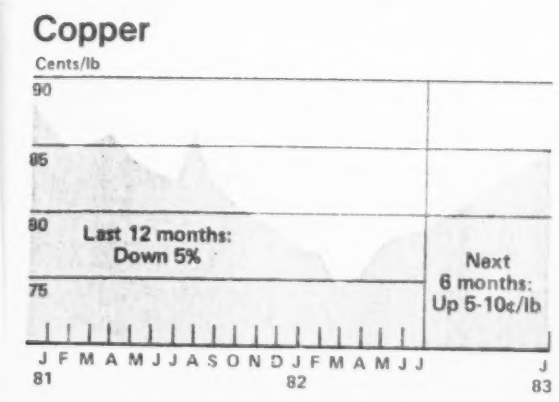
Steel

Operating rates continue to fall—with mill utilization in recent weeks dropping under the 50% mark. Nor is any major nearterm pickup anticipated, with latest shipment estimates for 1982 as a whole put only in the 70-74 million-ton range—well under last year's

Copper price scene

CURRENT SITUATION: Prices continue to sag—despite recent mine cutbacks and closures which have dropped the U.S. operating rate down into the 55-60% range. Disappointing demand is, of course, the major factor behind the easiness. But it's being aggravated by Third World producers (notably Chile, Peru, and Zambia) who are still digging the metal up at near-record levels. Add in the normally slow summer months, and **it's hard to make a case for any meaningful price rally before September or October.**

DEMAND: Not even a fourth quarter pickup will put Free World demand back into the plus column.



Indeed, given year-to-date performance, global 1982 chewup could be off 3-5%—on top of the 3.1% and 1.3% declines of 1980 and 1981. One of the problems is construction, which here in the U.S. accounts for near 30% of all use. Other key markets (electrical, machinery, and transportation) aren't all that robust either. **But the longer term looks better—with average Free World use expected to rise about 3% a year.**

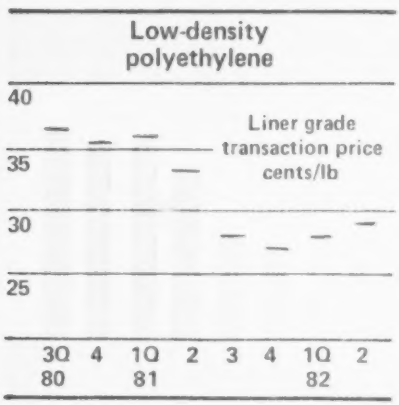
SUPPLY: Inventories aren't all that much out of balance (only about one week above normal on a global basis). But they could well edge up a bit over the next few months—or until industrialized-nation demand begins to pick up—probably sometime this fall. Upshot: no sweat nearterm. And there should be enough to go around in 1983 as more than 400,000 tons are added onto global potential this year. True, the following years (1984 and 1985) could mean some snugness-**but no real problems as global capacity rises near 3% a year.**

PRICE OUTLOOK: Increases are inevitable—given the fact that most producers are now operating in the red. But any nearterm hikes should be gradual—with perhaps 5-10¢/lb added onto the price by yearend. **And by late next year or early 1984, the red metal should again be up near the $1/lb level.** Beyond that, a $1.50/lb price can't be ruled out if producer estimates (suggesting that it would take this kind of price to justify new greenfield expansions) are anywhere near correct.

87 million ton reading. Not surprisingly, tags continue weak. Indeed, not only does the nearterm demand forecast seem to rule out any new boosts in lists, but it would also seem to guarantee continued discounting in such key lines as carbon sheet and plate, stainless, and even tinplate.

Low-density polyethylene

This number-one plastic continues to take its lumps, with market tags in recent days sinking into the low 27-32¢/lb range (liner grade material)—far under official lists which now range



anywhere from 35-46¢/lb. Behind the easiness: (1) softness in ethylene, which recently dropped as low as 17¢/lb, and (2) disappointing demand, which is keeping operating rates under the 70% level. True, some recovery is expected next year. Even so, 1983 prices will rise to only about 35¢/lb—only about 4¢ above the estimated 1982 average.

Aluminum

Free-market ingot remains in the mid-40s range—some 30¢/lb under the official list. Plenty of easiness in fabricated items, too—with even the heretofore strong can stock heading lower. True, U.S. producers are cutting back. But with overseas smelters dragging their feet, it might take another 6-12 months to achieve a semblance of balance. Thus, any nearterm price recovery will be quite modest—with ingot perhaps moving up into the upper 50s by yearend—still far short of offical lists.

Petroleum products

Quotes are beginning to edge up, reflecting recent hikes on the spot crude market. But any third and fourth quarter increases will be quite modest as (1) some countries raise production a bit and (2) oil demand for the year as a whole takes another drop. On the latter score, U.S. consumption this year is put at only 15.4 million barrels/day—some 600,000 under last year. On a more positive note, this should permit U.S. imports to fall a sharp 700,000 bpd—to only 5 million bpd.

High-density polyethylene

Prices for the key blow-molding grade are down another cent—into the 36-37¢/lb range. One problem, aside from poor demand, has been the big slug of new capacity that has just come on stream—enough to keep operating rates in the below-70% range. Moreover, another 1-2¢/lb erosion can't be ruled out nearterm—if only because costs of key raw material ethylene have dropped even more than the resin. On the other hand, some recovery is inevitable toward yearend. And right now you can probably look for prices to average in the 40¢/lb range for 1983—modestly above current levels but still well under today's unrealistic 45-48¢/lb lists.

Silver

Continuing sluggish demand precludes any significant nearterm rally. This year's global usage, for example, won't climb much, if anything, above last year's 369 million oz—far under the 507-million-oz peak of a decade ago. Other downward-tugging factors would have to include (1) the still-hefty stocks held by the Hunt brothers, (2) fear of new OSA releases, (3) the 10% mine production increase anticipated by 1985, and (4) high interest rates (which make monetary investments a much more attractive alternative than holding silver or other precious metals).

Polyester

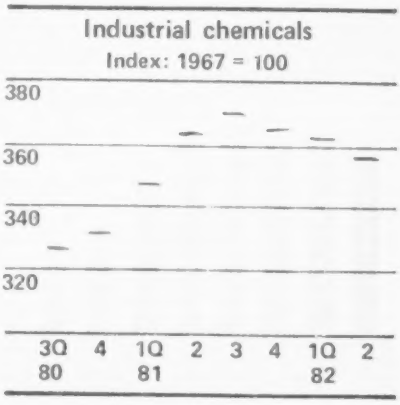
Weak domestic demand and a falloff in exports have dropped textile filament (150 denier feeder yarns) down into the 77-80¢/lb range—off some 20¢ from late 1981. Textured types are off by an almost-as-substantial 15¢/lb over the same period. The same factors—along with competition from cheap cotton—are pushing staple down, too. Upshot: Prices in the 73-78¢/lb range here—off about 5¢/lb from late 1981. But look for boosts next year when feeder years and staple are expected to average 10-15¢/lb and 5¢/lb, respectively, over current levels.

Lead

Backing and filling in the mid-20s range is expected to drag on through the slow summer months. Indeed, any pickup after that is likely to be modest as supplies continue to exceed demand. On the latter score, 1982 domestic use will be hard put to equal even 1981's far-from-robust 1.29-million-ton level. Next year, however, could see a fair-sized 4-6% gain—enough to push tags back into the 30¢/lb-plus range. But the longterm prognosis is still far from bullish as reduced lead use in batteries and the lead-in-gasoline phaseout hold growth to under 2% a year.

Industrial chemicals

Weakness is still the order of the day, with overall averages in the key organic sector running some 5-6% under yearago levels. Ethylene, for example,



is still mired down in the 17-18½¢/lb range. And co-product propylene is beginning to ease, too. True, benzene has stabilized—but at very low levels. Some inorganics are also weak—including heretofore strong caustic soda. Sulphur dioxide is also softer in key Midwest and Southern markets because of Canadian competition.

Rubber

The natural material should begin to firm a bit—assuming producers mean what they say about cutting sales 8% over the next six months. The cutback will be achieved through a combination

Predicts...

of reduced work weeks, a ban on chemicals to stimulate yield, and a buildup of producer stocks. It could bring prices back into the 50-55¢/lb range by early 1983. But that would still leave quotes well under the 65¢/lb-and-higher levels of a few years back.

Cement

Slumping construction is taking its toll—with prices declining fractionally over the past few months—thus knocking the year-to-year advance down to only 3-4%. And further nearterm easiness can't be ruled out. Meantime, the industry is using the demand lull to upgrade its facilities. Last year, a record 9 million tons of new capacity came on stream—with another 3 million currently under construction. This is permitting the shutdown of uneconomic facilities. These latter closures have also resulted in a decline in overall industry potential—with the latest figures off about 1.5 million tons from the peak hit back in 1974.

Zinc

Bearish sentiment continues as the metal's two key markets (autos and construction) remain at recession lows. Right now, total domestic use of slab zinc looks to hit only 830,000 tons this year—off 4% from 1981. True, the new zinc penny will help—but even next year it won't add more than 2½% onto overall usage. Upshot: Price recovery will be slow—despite some intensive domestic curtailments.

Newsprint

A second 1982 attempt to boost tags is being made—with prices moving up 5% (to $525/metric ton). But chances of it sticking seem slight in view of today's excess capacity. Another reason for easiness: user inventories that are some 50% above normal. The latter is traceable to hedge buying by publishers earlier this year in anticipation of a strike that never materialized. ***PW***

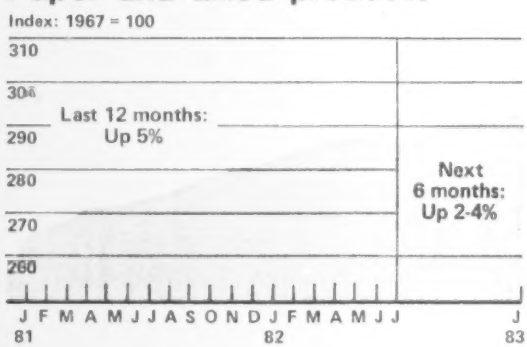
Paper price scene

CURRENT SITUATION: Prices are taking a breather. Indeed, even the 5% average advance shown over the past year (see chart) is probably exaggerated—as official government indexes fail to pick up all the current discounting and other forms of price shading. Another sign of the times: Corrugated carton shipments are lagging 1981 by more than 6%—with little chance of any bounceback to the 245-billion-square-feet total of last year. **Equally significant, operating rates are down virtually across the board**—in some cases by more than 10 percentage points.

DEMAND: Negative signs prevail. Corrugated and linerboard, for example, would be off upwards of 3%—even after factoring in some late-1982 pickup. Ditto **construction board**—hit hard by the dismal housing picture. And demand from the **food processing sector** will be lucky if it reaches last year's levels. As for paper—reduced advertising will hold down **printing types**, while **unbleached kraft** will suffer from a combination of weak domestic markets, plastic competition, and soft export demand.

SUPPLY: Low operating rates tell the story. This year, linerboard rates could drop down into the low 80s—a far cry from last year's 94% reading. Look for almost-as-precipitous drops in paper—where production of uncoated free sheet, coated printing stock, and unbleached kraft will all drop down into the 86-87% operating rate range. **No problems in 1983 either**—as the combination of only modest demand gains and new capacity coming on stream keep most paper and board sectors in the 85-90% range.

Paper and allied products



PRICE OUTLOOK: The combination of rising costs (they could be up as much as 7% this year) **and slowly improving demand point to some acceleration.** But it will be quite modest as competitive conditions exist. For the industry as a whole, little more than a 2-4% increase is seen by early 1983. **After that, boosts could be somewhat larger**—particularly in linerboard where market quotes have recently been under year-earlier levels.

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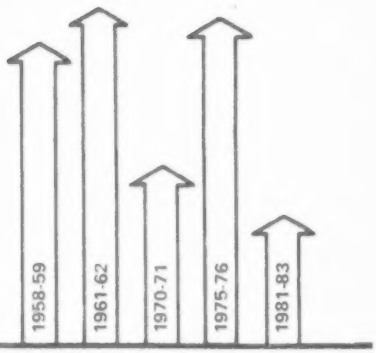
MIDYEAR UPDATE

Recovery will be long and slow

Federal budget deficits and high interest rates will keep economy from taking off



By Robert S. Reichard, executive editor

Things may soon be looking up. But don't expect miracles.

That in a nutshell is how Dr. Louis J. Paradiso views the nearterm business outlook. The *PurchasingWorld* economic consultant's midyear look into the crystal ball reveals that any pickup in the quarters immediately ahead will be quite modest—with average gains running well under those noted during the initial stages of other recent recoveries (see chart).

Why the far-from-rosy outlook? The veteran economist feels that Reaganomics leaves quite a lot to be desired and, more particularly, that huge budget deficits combined with high interest rates will continue to put a damper on growth—not only for the remainder of the year, but into 1983 as well.

Nor is he absolutely convinced that inflation has been licked. To be sure, Paradiso is encouraged by the current price lull, and he certainly does not see any return to double-digit rates. On the other hand, he feels some fair-sized increases may be in the making later this year and in 1983 as producers move to beef up today's badly-mauled profit margins.

His views on key elements of the economy can be summed up along these lines:

■ **Real growth:** Only a small 3-4% rise at annual rate is projected for the rest of the year—not nearly enough to recoup early 1982 losses. And these very modest advances are anticipated for early next year.

■ **Prices:** The pace of price increases will accelerate as demand slowly improves. By late 1982 and early 1983, the GNP price deflator and the cost-of-living index will both be running at 8%-or-so annual rates. And producer finished good quotes will be advancing at only a slightly more subdued 6-8% pace.

■ **Labor costs:** Some modest and continuing improvement is forecast—on a combination of moderating wage hikes and slowly accelerating productivity gains. Unit labor costs for the private nonfarm economy, which were clocked at 9% last year, should fall to 8% in 1982 and to about 7% in the following year.

■ **Business inventories:** Any second-half accumulation will be small because of lingering business uncertainties, ample supplies, and interest rates. In any case, it will not be enough to prevent an average $5 billion decline for 1982 as a whole. And even the 1983 advance will be modest by historical standards (only about $10 billion).

■ **Profits:** Bad news here, despite some second-half bottoming out. Indeed, for the year as a whole, the after-tax corporate take could be off as much as 25% from 1981 levels.

■ **Production and operating rates:** The output pickup will be slow. Add in a modest amount of new capacity coming on stream, and factory operating rates are still likely to be only in the low 75% range by mid-1983—far too low to spark any big new capital spending spree.

■ **Interest rates:** A modest dip over the next few months is possible. But borrowing costs could well start to climb again toward yearend—with the prime rate advancing back into the 17-18% range by early next year.

■ **Construction:** The continuing high interest rates will hold this year's housing starts to only 1.1 million units—and a not-much-more-robust 1.3-1.4 million units is forecast for 1983.

■ **Consumption:** Not all of the additional income being pumped into the economy by tax cuts and higher Social Security benefits will be spent. Upshot: a high savings rate (6% or so of disposable income) and lackluster auto demand—with sales coming to only about 8 million units over the current year (versus 9.0 million and 8.5 million in 1980 and 1981, respectively).

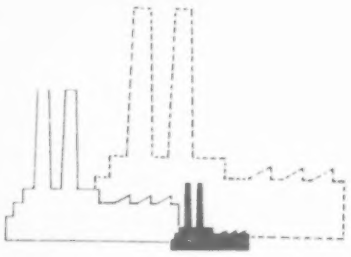
Paradiso hastens to add that precision forecasting is a lot more "iffy" than usual this time around—with the final figures dependent on such far-from-certain exogenous factors as Fed policy, legislative action in curtailing the budget deficit, and the highly fluid international situation. As such, he feels "all forecasts should be updated at least once every three months and perhaps even more often than that."

He further warns to know your forecaster. Most are unbiased, he says, but some do tend to be overly optimistic or pessimistic. A few others are excessively concerned about pleasing their bosses, he admits.

On the latter score, he would be especially wary of projections coming from Administration economists. As Paradiso puts it, "These will tend to be far too bullish—especially as the elections draw near. And I would expect my own projections and those of most econometric models to be considerably under those of Washington—at least as far as overall nearterm growth is concerned."

The veteran economist also warns against glib generalizations. While prices should start to accelerate a bit,

Overall growth



Reagonomics has not worked for several reasons:

(1) Businessmen and consumers lack confidence in the approach. In any case, there is no historical evidence that the combination of (a) large tax cuts slanted toward the more affluent, (b) big increases in defense spending, (c) deep slashes in many social programs, and (d) tight money add up to a viable program for steady growth. Indeed, there are built-in contradictions in this kind of approach.

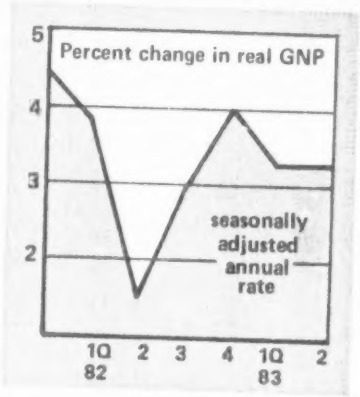
(2) Liberal investment-tax incentives cannot be expected to spur capital spending at a time when operating rates are falling. Historicaly, an 80%-or-higher rate would be needed to spark any sort of meaningful pickup here.

(3) The federal budget implies that record-high deficits will persist, thus casting doubt that interest rates will be brought down significantly and permanently.

In other words, the Reagan strategy is a gamble and most Americans are not yet willing to bet on its success.

To be sure, the combination of a new 10% tax cut and 7.4% increase in Social Security benefits this month will boost personal incomes by a hefty $47 billion annual rate. But unemployment and other uncertainties will limit the portion of this that will be spent.

What's needed, Paradiso says, is (1) a more accomodating monetary policy, (2) a sharply reduced federal deficit and (3) more emphasis on productivity—by expanding the use of robots, the installing of more efficient machinery, and the improving of managerial expertise.



But all this will take time and a change in Washington's thinking. As such, even with the boost in income, we will see only very modest growth through mid-1983. Paradiso's predictions: a 3% rate of real growth in the third quarter, 4% over the last three months of the year, and a 3-3½% rate in early 1983.

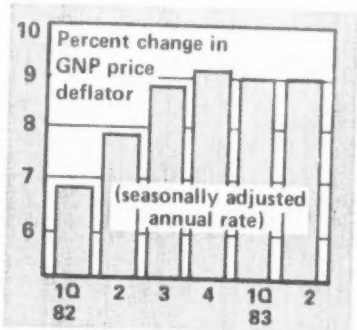
there will still be plenty of distress selling and good bargains around—particularly in some of the nondefense industries where demand gains will be painfully slow.

He further adds that the buyers' market will linger on for quite a while. Result: There will still be plenty of opportunities for nailing down longterm contracts with fixed prices ranging out as far as a year.

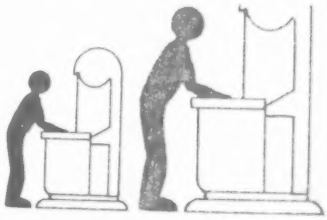
Following are Paradiso's more detailed observations and projections for key areas of the economy through the end of 1982 and into the first half of 1983.

Prices

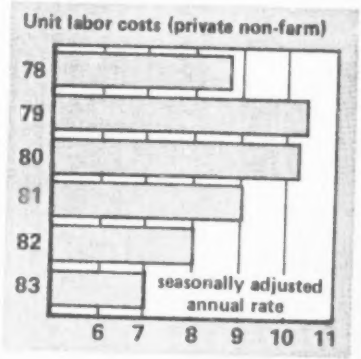
Several factors have made for the current respite: slow business demand, overcapacity, a global oil glut, and ample food supplies. But don't expect the continuing near-stability of the past few months. Gasoline and beef prices will start edging up, and slowly improving industrial demand will firm prodching 8% toward yearend. A similar pattern is seen for the cost-of-living index: 7½-8½% over the next six months and about 8½% during the first two quarters of next year.



Labor costs



Paradiso suggests caution when looking at quarterly figures, which are generally erratic. A much better indicator here is the yearly average. And the outlook isn't all that bad here, because



Labor costs

(1) the recession is resulting in lower pay demands and even some freezes and givebacks, and (2) improving activity will help beef up labor productivity. This year, for example, the average pay gain in the private nonfarm sector will drop about 1½ percentage points (to 8½%). Combine this with about a ½% increase in efficiency, and you end up with about an 8% increase in unit labor costs—down one percentage point from last year's 9% reading.

As for next year, look for this trend to continue. Specifically, an 8% pay boost combined with a 1% productivity increase will drop the unit labor cost increase down into the 7% range.

Profits and investments

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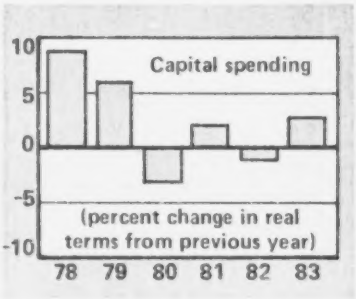


Even with enhanced depreciation allowances, corporate cash flow in the first quarter was off 10% from late last year. And, of course, after-tax corporate profit performance has been even more dismal.

One problem is that earnings tend to lag any economic recovery—a fact of economic life that will prevent any appreciable profit recovery until late in the year. Result: For 1982 as a whole, the after-tax take could be off as much as 25% from last year's levels.

This will most certainly inhibit new capital investment. So will the high cost of borrowing and low 70% operating rates. The latter is perhaps most crucial—for historically spending only begins to increase when utilization rates first approach and then begin to exceed the 80% level. Since this is still nowhere in sight (U.S. industry will only be at the 75% level in early 1983), capital spending will remain depressed.

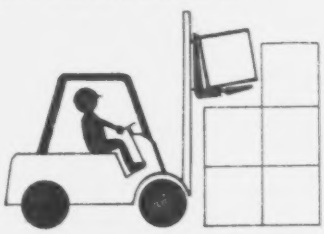
Paradiso's forecast here: a 1% decline in real terms for overall 1982. And even in the first half of next year, it's hard to see a gain of more than 3% at annual rate. Incidentally, this is well below the rate envisioned by supply-side economists.

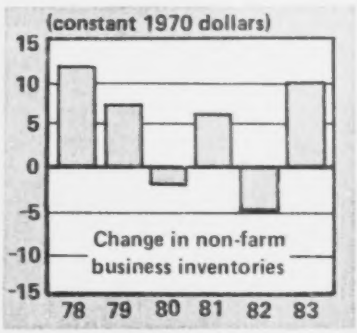
PurchasingWorld

FORECAST 82

MIDYEAR UPDATE

Inventories





Some sharp corrections were made in the first quarter. In real terms (stocks expressed in 1972 dollars) for example, the change in nonfarm holdings during that 3-month period dropped $17 billion at annual rate. But with sales falling even faster, the real stock/sales ratio remained near the peaks hit during the 1974-75 downturn.

As such, any nearterm accumulation will be restrained even if sales rise. Add in still-high carrying costs, and businessmen can be expected to continue pursuing a cautious inventory policy. Thus, even with some fractional gains late in this year, the overall 1982 business inventory figure could be down about $5 billion (again in 1972 dollars).

And even in 1983, any increases will be quite restrained. As of now, total nonfarm business stocks look to rise by only about $10 billion—but with most of the advance centered in defense related industries.

Interest rates and

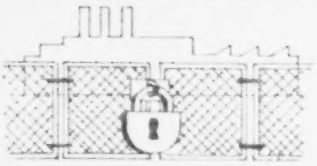
Forecasts here depend to a large extent on the size of the budget deficits and the overall Fed monetary stance. Right now, even with anticipated budget cutbacks, the deficit looks far too high to prevent any sharp drop in interest rates. Moreover, the economic recovery itself will require additional credit to finance inventories and other phases of business operations.

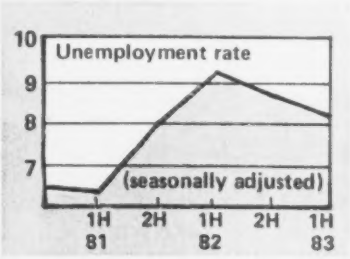
Defense contractors will also have to step up borrowing since the Pentagon promises to be slow with progress payments.

So barring any sharp change in Fed policy (which seems quite unlikely), upward pressures on interest rates could well intensify again by early next year.

The forecast is for the prime rate to

Unemployment

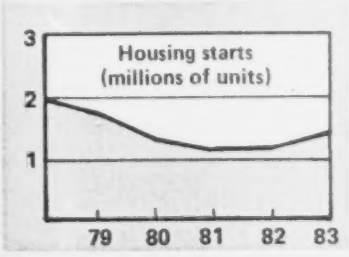




This is another economic indicator that generally lags an economic recovery. The basic reason: Output can usually be increased at first by improving productivity and lengthening the hours of work.

In any event, Paradiso expects this total jobless rate to fluctuate between 8½% and 9% through the end of the year. And even with some improvement after that, it is doubtful whether it can be brought down below the still-high 8% mark by the middle of next year.

construction

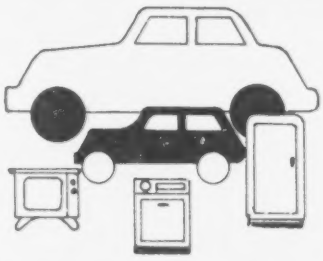


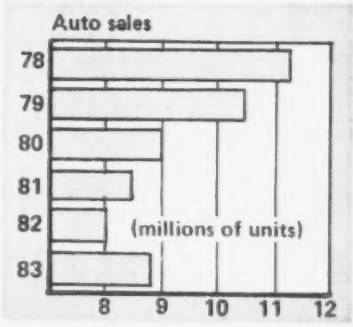
drop a few percentage points over the next few months but rise again into the 17-18% range again by early 1983.

These factors would also seem to preclude any significant drop in mortgage rates from the current 17% level. This, in turn, will put a damper on construction. The point is that many potential buyers simply cannot afford to finance a new home even though the purchase price of a new house has edged down a bit.

Housing starts for the current year may only total about 1.1 million units. And even next year will be a disappointment with only about 1.3-1.4 million units, far under the 2-million-plus figure of a few years back.

Consumer spending





It is not at all certain how much of 1982 and 1983 tax cuts will be funneled back into the spending stream. The fact that most of the additional money will go to higher-income groups, for example, could well lower the percentage of total U.S. income that will be spent on automobiles and other big-ticket consumer items.

This, in turn, suggests a rise in the personal savings rate. Clocked in at 5.3% last year, it could well rise to 5.7% in 1982 and an even higher 6% in 1983.

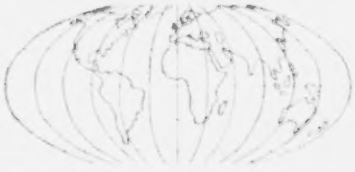
In any event, any real increase in aggregate consumer buying should be quite modest. Annual rates of rise will only near 3% in the third quarter and 4½% in the last quarter. Moreover, because of a poor first half, spending for the year as a whole should be up by only 2% or so in real or constant dollar terms. Looking further ahead, the first half of next year should see a 4-5% advance, hardly enough to assure a major busines recovery.

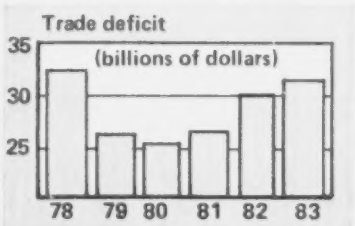
Autos will be particularly disappointing as consumer confidence, hurt by unemployment, remains at extremely low levels. Other factors likely to limit nearterm growth in car purchases would have to include steep prices and high financing charges. As such, many potential new-car buyers will probably continue to patch up their old vehicle or opt for a used car.

The result is that new auto sales in 1982 may total no more than eight million units—well under the 9.0 million and 8.5 million of 1980 and 1981, respectively. True, some improvement is likely toward yearend and in early 1983. But it's still hard to make a case for a major rebound.

One bullish note on the consumer front, however: Installment credit outstanding relative to disposable personal income is now down at a healthy 15% (versus 19% in 1979). So when buyers do decide to spend, they won't be overextending themselves.

International





High interest rates plus relatively modest inflationary pressures should keep the U.S. dollar strong vis a vis most other major currencies. But this could be a mixed blessing, for it is having an adverse impact on exports.

Indeed, our outgoing shipments have been on a moderate declining trend since last September. And there's little indication that the current annual rate of exports ($225 billion) will change very much over the next few quarters.

Imports, meantime, have shown some wide fluctuations, mainly due to the erratic movement in oil. But basically imports are a lot more attractive under a strong dollar. This is certainly the case in steel where the rise in the dollar had made U.S. mills a high-cost producer relative to metal being turned out by our Japanese and European competitors.

All told, these diverging import and export trends should make for an even larger trade deficit—perhaps several billion above the $27.8 billion recorded last year. And the red ink figure could be even bigger in 1983 when recovery adds to import demand. ***PW***

Computer forecasters look two years ahead

The nation's big econometric think-tanks—like everyone else these days—have been forced to revise their nearterm business forecasts to take into account (1) today's deeper-than-anticipated recession and (2) improving inflation prospects.

The latest projections, based on a *PurchasingWorld* survey of four leading forecasting firms, suggest that while any late-1982 recovery won't be enough to put the current year's growth back into the plus column, the following two years (1983 and 1984) should turn out tolerably well.

But the accent should be on the word "tolerably." The fact is that not one of the four forecasting models monitored in the survey is looking for an annual rate of growth exceeding 4½% over this extended period (see table). Indeed, average out all four estimates of real GNP growth, and the figure comes to only around 4% a year.

One reason for these growth-but-no-boom scenarios: the expectation of continuing high interest rates. Again there's pretty much agreement on this score. The four big econometric consulting firms, for example, all feel that any decline in lending rates will turn out to be quite modest. Note that even the most optimistic of them projects a prime rate of over 12% by as late as 1984.

But if all those forecasts aren't too bullish on growth, they are somewhat optimistic about avoiding any new outbreak of double-digit inflation. The GNP deflator (the most comprehensive of all U.S. price yardsticks) is expected to average out near 6% over the next few years. And the same is true of consumer prices—though some slight acceleration is anticipated here by all four of the econometric models in 1984.

About the only price sector likely to show any appreciable amount of acceleration in 1983 and 1984 is producer prices—on a combination of slowly rising demand, less cut-throat competition, and attempts to beef up some of today's distressingly low profit margins.

But even here, the advances are expected to remain in bounds, with the four-firm average increases in Uncle Sam's Producer Price Index rising from near 3.7% this year, to 6.9% in 1983 and 7.6% by the following year.

The one big headache over the forecast period—aside from relatively slow growth and still-high borrowing costs—is expected to be unemployment. All four of the forecasts (all based on complex mathematical relationships) show only slight improvement. Even the most optimistic of them anticipates a jobless rate of near 7½ by 1984.

All of these forecasts will, of course, be subject to revisions as the economic ground rules change. But the fact that all four are in basic agreement would tend to instill a note of confidence as to where demand and prices now seem to be heading in the years immediately ahead. ***PW***

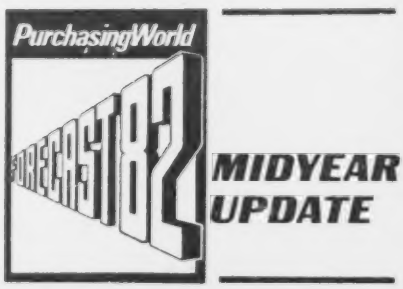
What the big econometric models are predicting

	Prime Interest Rate		
	1982	1983	1984
Data Resources, Inc.	15.3%	14.9%	13.7%
Chase Econometrics	16.1	15.1	13.8
Wharton	15.7	13.6	12.2
Merrill Lynch Economics	15.5	14.5	13.0
Average	15.7%	14.5%	13.2%

	Real GNP (% change)			Consumer Price Index (% change)		
	1982	1983	1984	1982	1983	1984
Data Resources, Inc.	−1.5	3.3	4.2	5.8	6.4	6.6
Chase Econometrics	−0.8	4.0	3.9	6.1	6.4	6.7
Wharton	−0.4	4.5	3.8	5.2	5.3	6.3
Merrill Lynch Economics	−0.5	3.5	4.5	5.2	5.6	5.8
Average	−0.8	3.8	4.1	5.6	5.9	6.6

	GNP Price Deflator (% change)			Industrial Production Index (% change)		
Data Resources, Inc.	6.4	6.4	6.3	−5.5	6.8	6.6
Chase Econometrics	6.8	6.3	6.4	−4.6	7.1	5.5
Wharton	6.7	6.2	6.1	−3.7	7.5	5.1
Merrill Lynch Economics	6.2	5.7	5.6	−5.3	6.0	7.2
Average	6.5	6.2	6.1	−4.8	6.9	6.1

	Producer Price Index (% Change)			Unemployment Rate		
Data Resources, Inc.	2.6	6.4	8.3	9.3	8.8	8.0
Chase Econometrics	4.0	8.6	9.2	9.0	8.4	7.5
Wharton	5.2	6.8	7.1	8.8	8.1	7.6
Merrill Lynch Economics	2.9	5.7	5.7	9.3	8.9	8.1
Average	3.7	6.9	7.6	9.1	8.6	7.8



Steel suppliers see dark days ahead

Recent efforts to pare steel inventories have not been meeting with too much success. It's not that tonnage holdings are not being cut. Rather it's that production and sales have been falling even faster, thereby resulting in a rising months' supply.

The top section of the accompanying chart provides the details. Note that both distributors reporting to the Steel Service Center Institute (SSCI) and purchasing managers responding to the latest NAPM Steel Survey show an uptick in relative supplies.

True, the advances are moderate. But they do suggest that inventory caution will continue to be the byword. In any event, no one is satisfied. Thus 77% of the steel service centers and 45% of steel buyers now say their inventories are too high relative to demand—with not one in either group rating their stocks as "too low."

Adding to the determination to reduce holdings is today's ready availability —with no problems anticipated by either surveyed group. Indeed, this had been the case without exception since the beginning of the current year.

With these inventory and availability situations plus the feeling that any business pickup is still months away, it is not surprising that nearterm steel ordering is expected to be quite disappointing—with both distributors and purchasing managers indicating lower bookings through summer.

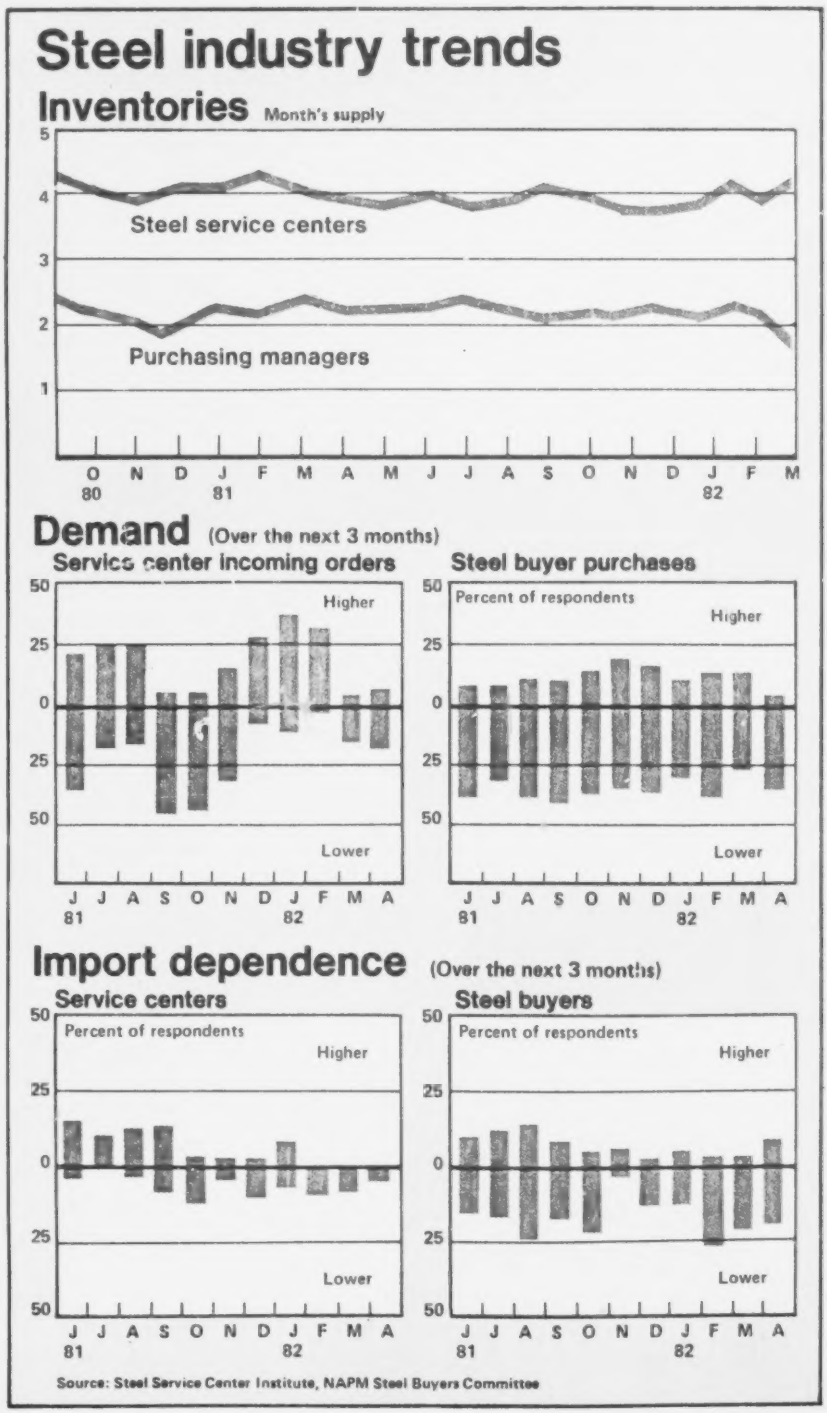
For example, some 17% of the steel service centers expect their incoming business to tail off over the next three months—more than twice the number who say they are contemplating increases. And the picture on the buyers' front is much the same—with the 33% anticipating a decrease in steel purchases outweighing those who plan boosts by an even heftier 5:1 margin.

Further confirmation of the lackluster outlook comes from service center executives who attended their association's recent annual meeting in Hawaii. As SSCI President Andrew Sharkey summarizes it, shipments by the group this year could fall to near 16 million tons—down almost 9% from the 17.5 million tons of 1981.

Sharkey also notes that members in all geographic regions now report slowdowns or a levelling off. The only exception, he adds, are some big nonresidential projects and critical energy-related programs.

But if it's any consolation, the SSCI slowdown represents a smaller percent decline than contemplated by steel mills who now seem reconciled to a much larger 15-20% drop-off in shipments.

Another interesting finding of both surveys: the continuing availability of cheap imports. Every single service center, for example, now reports lower prices on carbon items—with 55% putting the price break in the relatively high 10-20% range. Steel buyers tell much the same story—with 87% saying foreign metal is cheaper. ***PW***



Price increases through 1984 will stay below double-digit rates

Count on some fair-sized price increases toward yearend—and the same is likely for 1983 and 1984 as well.

That's not to say we're heading for another round of double-digit inflation—at least not as far as overall averages are concerned. But with the economy about to bottom out and profits squeezed to near the breaking point, it would be unrealistic to expect a continuation of the near stability of the past few months.

That in a nutshell is how DRI's Cost Forecasting Service sees the price picture developing. (And it's an opinion shared by other big econometric consulting firms.)

Other upward-tugging factors to contend with in the years immediately ahead would have to include a slight uptick in labor costs and some new rises in energy. (On the latter score, DRI sees energy price escalation next year matching or exceeding rates experienced this year. Indeed, as suggested in the accompanying table, prices for processed fuels should be up 9% over the next four quarters.)

As for other key industrial sectors, DRI sees the price picture shaping up something along these lines:

■ **Steel mill products:** Slow but steady increasing demand from the auto and construction industries will allow for some substantial boosts. By the third quarter of next year, for example, galvanized sheet could be up about 10%—with rebars advancing by an almost-as-impressive 9.6%.

■ **Copper:** Substantial price recovery from current below-cost levels is anticipated. Aided by relatively low inventories, average quarterly advances of 3.6% are seen from late 1982 through the end of 1984. This should bring the price to near 90¢/lb by the second quarter of next year and to about $1/lb by early 1984.

■ **Aluminum:** The price outlook is similar to copper, with quarterly rises averaging out at 4.2% from now through the end of 1984. Aluminum scrap should move up even faster—with a compound annual rate (CAR) of 19.2% seen for the entire three-year 1982-84 period.

■ **Industrial chemicals:** Price recovery is expected to start during the last quarter of the year—and from there to the end of 1984, quotes are slated to advance at a 10.4% CAR.

■ **Corrugated boxes:** Despite some late-1982 pickup, prices for the current year will average only 2.4% ahead of 1981. But much more substantial 8.6% and 6.1% increases are projected for 1983 and 1984, respectively.

■ **Construction materials:** Slow housing recovery should moderate any price increases—with only about an 8.3% CAR of advance seen over the three year 1982-84 period. But somewhat lower annual rates are seen for such products as sheetmetal items and asphalt roofing.

■ **Electronic components:** Some firming is anticipated here by yearend. But subsequent hikes will be quite modest with average increases for 1983 and 1984 put at only 4.0% and 4.2%. One exception: capacitors, which should show much larger hikes (10-11% a year) over this two-year period. ***PW***

Prices: the product-by-product outlook

(year-to-year third quarter comparison)

	1981/80	1982/81	1983/82	1984/83
RAW MATERIALS, ENERGY				
Supplies for manufacturing	8.8%	5.7%	8.4%	8.7%
Industrial chemicals	12.9	−2.5	11.3	7.7
Middle distillates	23.1	−8.5	8.8	10.2
Processed fuels & lubricants	16.8	−1.8	8.9	9.0
Supplies for construction	7.2	2.8	9.8	10.0
METALS				
Domestic copper cathode	−15.7	−5.0	17.6	14.1
Zinc	27.4	−13.8	12.0	10.6
Lead	11.6	−32.4	16.3	13.6
Carbon steel plate	11.5	10.3	6.4	11.2
Galvanized carbon sheet	19.9	2.9	10.0	9.1
Reinforcing bars	1.3	−2.3	9.6	10.1
Wire and Cable	−3.0	2.0	13.5	11.3
Structural metal products	10.0	3.8	3.6	8.0
COMPONENTS				
Hardware	8.0	6.1	8.6	6.7
Electronic instruments	5.8	3.8	6.3	5.8
Storage batteries	4.6	−3.9	9.0	8.0
Electronic components	6.8	3.7	4.5	4.1
Machine shop products	14.3	6.4	8.8	10.3
Unwatermarked bond #4	9.6	7.5	7.2	7.5
Switch gear	7.4	3.8	8.3	8.5
Fasteners	7.1	5.5	8.1	6.8
Corrugated cartons	6.9	1.5	9.4	6.1
Truck tires	8.8	1.4	8.8	9.5
CONSTRUCTION MATERIAL				
Insulation board	15.5	5.9	7.1	11.9
Plastic products	−1.7	−1.2	10.1	8.1
Bituminous paving matl.	22.9	−2.5	11.1	11.8
Sand, gravel, stone	8.5	6.7	5.5	5.5
Culvert pipe, reinforced	3.4	2.0	5.6	10.0
EQUIPMENT				
Construction machinery	10.8	6.2	7.8	10.1
Heating equipment	9.6	4.3	6.3	6.8
Railroad equipemnt	6.4	6.8	11.2	10.6
Mining machinery	9.0	8.9	12.6	11.9
Oil field equipment	20.7	9.9	8.6	11.0
Motor trucks	12.2	5.5	10.5	9.0
Metalworking machinery	8.9	7.1	9.7	9.4

Source: Data Resources, Inc.

Leadtime index shows first signs of business recovery

Leadtimes may be approaching a bottom. Witness the near-level (50) performance of *PurchasingWorld*'s exclusive leadtime index.

A similar conclusion is suggested by two NAPM Business Survey Committee reports. The "favorable" gap between those reporting faster and those reporting slower deliveries has narrowed to 15 percentage points—down significantly from the 22 percentage-point gap of the previous month. And, there has been no further increase in the already large 85% of responding PMs who feel they can keep forward commitments to under 90 days.

Also worth noting: Now, for the first time, there is some concern being expressed about the longer pull (late 1982 and early 1983). It's not that there isn't enough capacity—operating rates are down in the low 70% range. Rather, it's the fear that many vendors are playing their inventories close to the vest. When a pickup does come, they may not be able to move fast enough to meet a demand increase—especially in instances where capacity has been temporarily mothballed.

Two other longterm worries: a possible reduction in product lines as vendors move to streamline their operations, and the financial viability of some hard-hit suppliers. ***PW***

Leadtimes and availability

Chicago: All component parts are available in a week or two. Softwood framing is out a bit (to 2 weeks). Ditto, sanded plywood and plyform (to 3). But common process stearate chemicals are in (to 1). No problems, either, with PVC (1), chlor-alkalis (3), chrome chemicals (½-1), and shrink film (5-6).

Cleveland: Everything is easy, with "on-demand" availability for alloying materials, natural kraft, and plywood. Other "no sweat" leads (in weeks): corrugated boxes (3), folding boxes (4), reconditioned steel drums (1-2), polyethylene and PVC (2), cold-finished aluminum (6-8), chipboard (3-4), and plastic shrink film (3).

Houston: Component parts are readily available across the board. Other typical leads (in weeks): stainless steel (1-2), corrugated (2-4), tungsten carbide parts (14-16), cast steel valves (13), carbon shop-fabricated pipe (17), alloy shop-fabricated pipe (22), mill steel (4-8), and steel castings (10-12).

Los Angeles: Some relatively minor changes—both up and down. Extended a bit (in weeks) are copper tubing (7-8), fasteners (5-7), and heavy-duty steel (11-12). But coming in are copper fittings (5-6), gray iron castings (4), brass castings (3-5), insulation materials (4-5), specialty wire (4-6), and pumps (4-6).

Philadelphia: Some chemical formulations are being discontinued, necessitating shifts. Caustic soda, meantime, has become readily available again. Standard pumps are unchanged (at 8-12 weeks), but could extend as production runs become less frequent. Standard valves are unchanged (at 6).

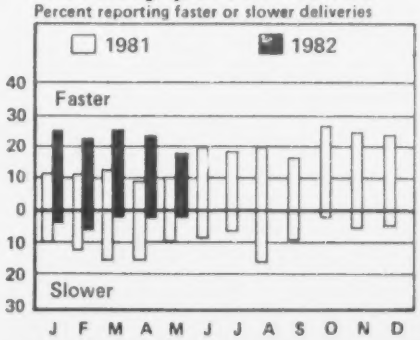
Pittsburgh: Some narrowing is noted in a few alloying materials, with these lower waits (in weeks): lead (2), silicon (2), and tin (4). Lumber and plywood remain unchanged (2-4). Ditto, steel strapping (2-3), maintenance paint (5), polyethylene and PVC (4), plastic bags (3-4), standard steel drums (2-3), and glassine paper (5-6).

PW monthly procurement status report

Source: NAPM

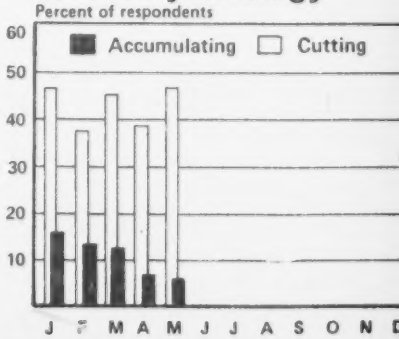
Delivery performance

Percent reporting faster or slower deliveries



Inventory strategy

Percent of respondents



Leadtimes (in weeks)

Steel

	Now	Month ago	Six months ago
Sheet (Phil)	5	5	5
C-R Sheet (Chgo)	4½	4½	4½
Plate (Phil)	4½	4½	5
Plate (Chgo)	2	2	2
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	6½	6½	8½
H-R Bars (Chgo)	2	2	2
Cold-Drawn Bars (Phil)	12	12	12
Galvanized (LA)	7	7	6
Galvanized (Chgo)	4½	4½	4½
Structurals (Chgo)	2	2	2
Structurals (Hous)	17	17	17
Tubing (Phil)	19	19	10
Grey Iron Castings (LA)	4	5	2
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	7	7	7
Pipe, Carbon (Hous)	17	17	22

Electric & Electronic

Cables (Chgo)	8½	8½	10½
Capacitors (Chgo)	13	13	5
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	7	7	8
ICs (Linear) (Phil)	11	11	12
Motors (Phil)	21	21	21
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	13	13	6
Relays (Chgo)	15	15	12
Resistors (Chgo)	12	12	8
Resistors, Wirebound (Phil)	18	18	18
Transformers (Chgo)	10	10	10

Lumber

Hardwood (Pgh)	3	3	3
Hardwood (Clev)	3½	3½	3½
Plywood (Chgo)	3	2½	2
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	3	3	3
Softwood (Phil)	1/5	1/5	1/5
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½

Packaging

	Now	Month ago	Six months ago
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	11	11	11
Cartons, Corrugated (Clev)	3	3	3
Cartons, Corrugated (Hous)	3	3	4
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	7	7	7
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3
Shrink Film (Chgo)	6	6	6
Shrink Film (Clev)	3	3	3
Drums, Fiber (Pgh)	3½	3½	3½
Drums, Steel. Std. (Pgh)	2½	2½	2½
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	6½	6½	6½
Strapping (Clev)	2½	2½	2½
Strapping (Pgh)	3	3	3

Chemicals-Plastics

Adhesives (LA)	1½	1½	2½
Naphthalene (Chgo)	2	2	2
Paint (LA)	4	4	3
Paint, Coil Coating (Pgh)	3	3	3
Paint, Maint. (Clev)	2	2	2½
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Clev)	2	2½	2½
Polyethylene Resin (Pgh)	4	4	3
PVC Resin (Chgo)	1	1	1
PVC Resin (Pgh)	4	4	3
Titanium Dioxide (LA)	1½	1½	1

Paper

Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	1	1	1
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½

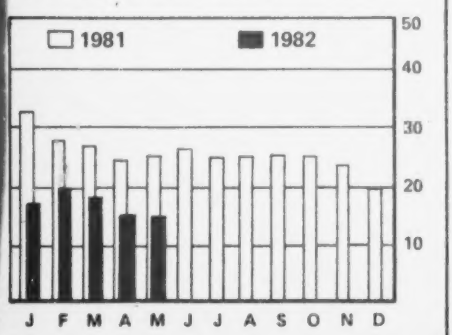
Non-Ferrous

	Now	Month ago	Six months ago
Aluminum Coil (Chgo)	6	6	6
Aluminum Plate (Chgo)	7	7	8
Aluminum Sheet (LA)	12	12	11
Aluminum Sheet (Chgo)	8	8	8
Brass Castings (LA)	4	7	4
Brass Rods (Chgo)	2½	2½	2½
Brass Sheet (Chgo)	5	5	5
Brass Tube (Chgo)	9	9	9
Copper Fittings (LA)	5½	6	5
Copper Mill Prod. (Pgh)	6	6	6
Copper Tube (LA)	5½	6	7
Copper Tube (Phil)	6	6	6
Lead (Pgh)	2	3	3
Magnesium (Pgh)	2	2	2
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	4	6	6
Wire, Specialty (LA)	5	6	6
Zinc (Pgh)	2	2	2

Miscellaneous

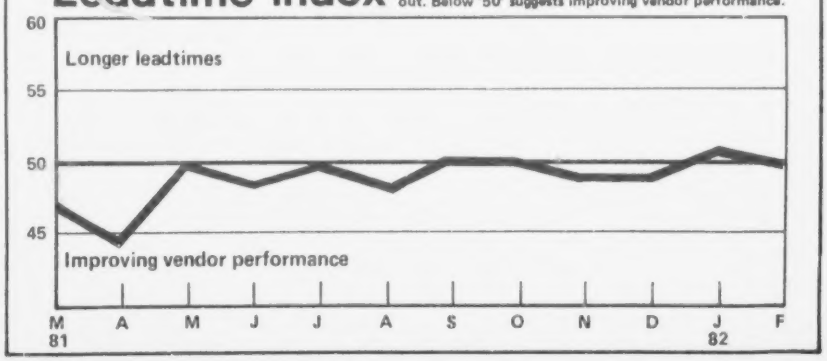
Bearings, Domestic (Phil)	22	22	22
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	52	52	52
Compressors, Centrifugal (Hous)	57	57	57
Compressors, Reciproc. (Hous)	45	45	45
Fasteners (Chgo)	½	½	½
Fasteners (LA)	6	3½	6
Fasteners, Std. (Phil)	3½	3½	3½
Heat Exchangers, Carbon-alloy Steel (Hous)	37	37	37
Heat Exchangers, Hi-pressure (Hous)	46	46	46
Insulation Mat'l. (LA)	4½	5	5
Machined Parts (Hous)	9	9	12
Pipes & Valves (Chgo)	1	1	½
Pumps (Hous)	41	41	41
Pumps (LA)	5	9	4
Rubber, Synthetic (LA)	1	1	1½
Rubber Hose (LA)	7	7	7
Tungsten Carbide Parts (Hous)	15	15	16
Valves, Cast Steel (Hous)	13	13	17
Welding Supplies (Hous)	5	5	5

Forward commitments

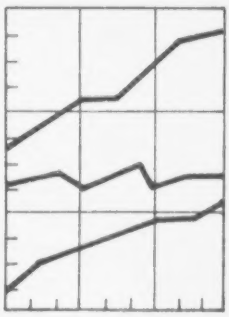


Leadtime index

A 'diffusion' index based on 158 key commodities. Above '50' indicates a tendency for leadtimes to stretch out. Below '50' suggests improving vendor performance.



Latest scrap quotations



	Now	Month ago	Year ago
Steel, No. 1 hvy., dlvd., Pitts., ton	59.00	64.00	100.00
Steel, No. 1 hvy., dlvd., Clev., ton	54.00	63.00	96.00
Steel, No. 1 hvy., dlvd., Chi., ton	50.00	60.00	87.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	0.533	0.620	0.760
Copper, No. 2, East, wholesale buy, dlvd., lb.	0.458	0.550	0.660
Brass, red, East, wholesale buy, dlvd., lb.	0.493	0.580	0.720
Brass, yellow, East, wholesale buy, dlvd., lb.	0.330	0.350	0.435
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	0.230	0.240	0.325
Alum., mixed clip., E., wholesale buy, dlvd., lb.	0.240	0.250	0.360
Zinc, old, East, wholesale buy, dlvd., lb.	0.125	0.130	0.160
Lead, clean solids, East, wholesale buy, dlvd., lb.	0.140	0.140	0.230
Passenger tires, mill purchase, ton	16.00	16.00	16.00
Butyl tubes, mill purch. (free of valves), lb.	0.065	0.065	0.065
Black natural tubes, mill purch. (free of valves), lb.	0.060	0.060	0.060
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	7.00	8.00	15.00
Paper, old corrug. box, dlr., N.Y., ton	6.00	7.00	10.00
Polyethylene scrap, lb.	0.20-0.30	0.20-0.30	0.20-0.30
Polystyrene scrap, lb.	0.18-0.28	0.18-0.28	0.18-0.28
Polypropylene scrap, lb.	0.12-0.18	0.12-0.18	0.12-0.18
ABS scrap, lb.	0.18-0.28	0.18-0.28	0.18-0.28
Roofing rags, No. 2, dlr., lb.	Nom.	Nom.	Nom.
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	0.060	0.080	0.135
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	0.11	0.13	0.35

U.S. productivity up 2.2%

U.S. productivity performance last year wasn't all that bad—provided you were in on the manufacturing sector.

Specifically, our output per worker advanced at a fairly respectable 2.2% rate, up substantially from the previous year. But on a more negative note, the U.S. efficiency gain trailed that of some of our foreign competitors—with increases in the United Kingdom, Japan, West Germany, and France put at 5.8%, 2.9%, 2.6%, and 2.4%, respectively.

If it's any consolation, we did manage to come out ahead of a few other industrialized nations. Italy posted only a 2% advance and Canada managed to fashion only a fractional 0.6% increase. Also, the relatively subdued gains noted for Japan and Italy were well under year-earlier (1980) levels.

These figures, culled from a new Bureau of Labor Statistics report, can also be compared to pay hikes, yielding unit labor cost estimates. The latter numbers (calibrated in U.S. dollars) are quite discouraging—primarily because of our strong exchange rate.

Examples: While U.S. manufacturing unit labor costs rose 8.7%, some substantial declines were noted for West Germany (off 15.4%), France (off 11.2%), and Italy and the United Kingdom (both off 5.4%)." ***PW***

Buyers' market here to stay

If current sagging factory utilization rates are any indication, today's all-out buyers' market is here to stay for quite some time.

These key measures of both availability and price pressures have been dropping steadily. Upshot: The average factory is now operating at only 70% of its potential.

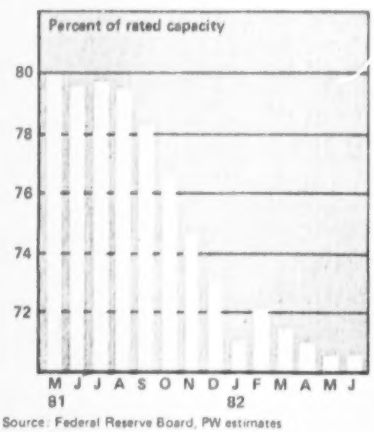
More important, any subsequent recovery is likely to be slow. The annual rate of economic growth over the next few years is put at only 4-5%. But since new capacity will still be coming on stream at a 2-3% annual rate, it may take until 1984 before an overall 80% operating rate (the minimum needed for a semblance of market balance) can be reattained.

And the situation is even more bearish for some of the basic raw material industries. Take metals, where utilization is put at only around 60%. And if you zero in on specific metals like steel and copper, the figures are even lower than that—under 50% for steel, and about 55% for copper.

Other basic materials, while not quite as low, also remain far under normal levels. Examples: textiles (around 70%) and chemicals (68%). To be sure, paper producers are still operating at near the 88% level.

Nor are the more highly fabricated industries faring that much better. Autos, farm equipment, and machine tools have been especially hard hit. But others haven't escaped either. The overall rate for "advanced processing" industries is put at only 73%—pretty close to the 69% low hit back in 1974-75. ***PW***

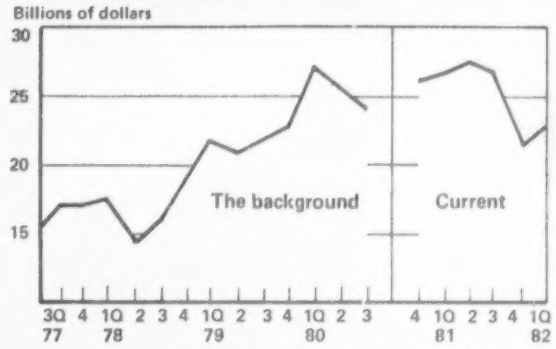
Factory operating rates



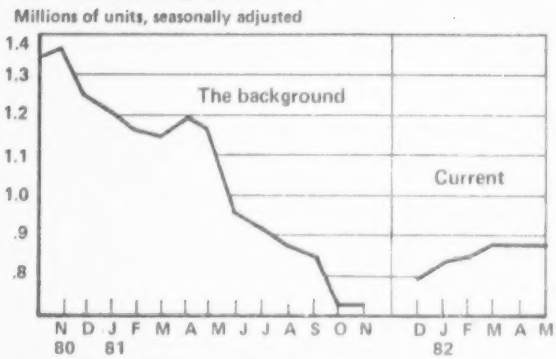
Source: Federal Reserve Board, PW estimates

Leading indicators

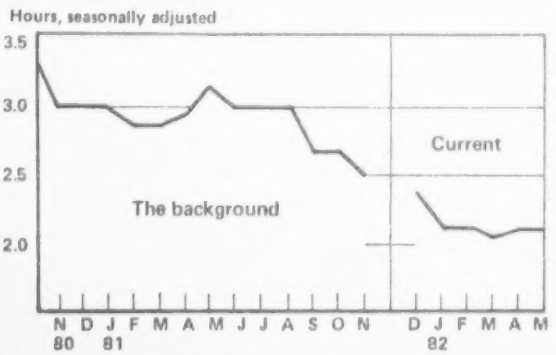
1. Capital appropriations



2. Housing permits



3. Overtime hours



Business in brief:

Summer doldrums to continue

Bearishness is still the order of the day, with precious few signs of any meaningful economic pickup—at least as far as the summer months are concerned.

The latest reading of the NAPM Business Barometer (see chart below) tells the disappointing story. This key indicator of activity a few months down the pike dropped to a new low of 35 last month—some 15 points under the neutral 50 mark, and not much above the troughs hit back in 1974-75 and mid-1980.

To be sure, Uncle Sam's index of leading indicators has turned up a bit. But analysts both in and out of government remain cautious, noting that they would want to see two or three consecutive months of rise before projecting any imminent recovery.

Certainly, today's still-sky-high interest rates would seem to justify such caution. The cost of money would have to come down considerably before consumers begin spending on such big-ticket items as houses and cars.

These high interest rates—along with low (mid-70s) factory operating rates—also continue to have a negative impact on capital spending. One recent survey, for example, suggests that real outlays for plant and equipment could be off as much as 5% this year.

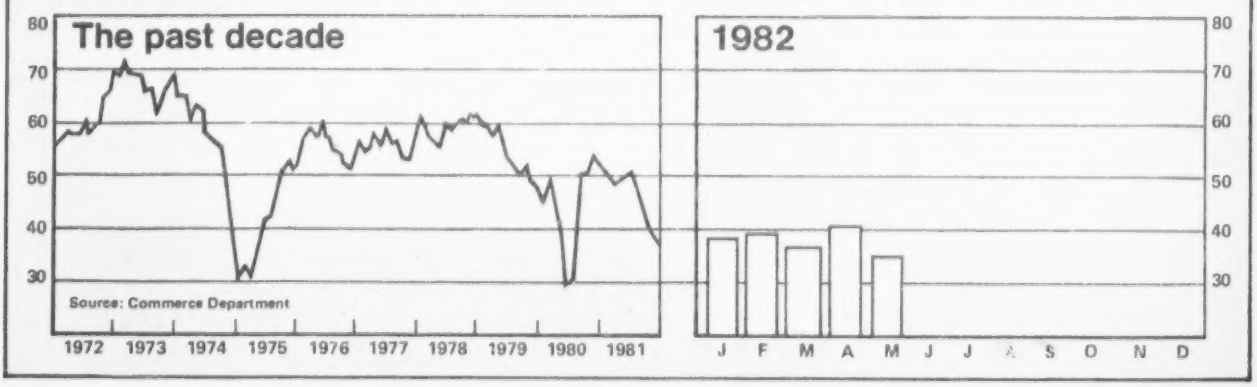
Capital appropriations, a lead indicator of future spending on new factories, also leaves quite a lot to be desired. True, this series is levelling off—and may even be inching up a bit (top chart). But it's entirely due to a stepup in petroleum, with no sign of any pickup in the critical manufacturing sector.

Construction statistics tell much the same story. Housing permits (a forerunner of starts) are still under 900,000 a year (center chart). While somewhat above the 720,000 annual rate of late 1981, it's nowhere near the 1,370,000 rate of late 1980.

Workforce figures are hardly worth shouting about either. Unemployment remains above 9%, and overtime (a sensitive index of current factory sentiment) comes to only 2.2 hours a week—far under the averages of last year (bottom chart). ***PW***

NAPM business barometer

Based on five indicators (employment, inventories, new orders, production, vendor performance)

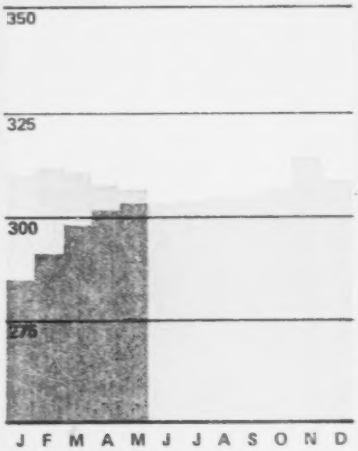


Industrial prices at a glance

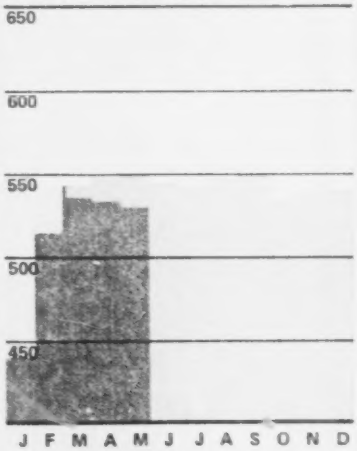
1981 ☐ 1982 ☐

All items

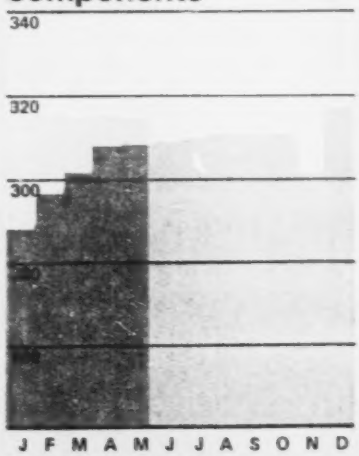
Index: 1967 = 100



Raw materials



Semifabs, components



Source: Bureau of Labor Statistics

Producer prices stagnant

The price lull is continuing—with industrial producer tags now virtually unchanged for the sixth straight month.

One of the softest areas over the past few weeks has been metals, with substantial discounting in many steel items and continuing declines in the nonferrous sector. On the latter score, aluminum, copper, lead, and zinc are at or near their lowest levels in years. And most producers in these industries are awash in a sea of red ink.

Industrial chemicals also remain easy—particularly organics. Ditto, manmade fibers. And the same is true of most plastic resins, though there have been some partially successful attempts to bring prices up a bit in this latter area.

Most highly-fabricated items are also feeling the pressure. Machinery tags, overall, are just barely rising. Indeed, zero in on selected machine tool lines, and you can probably find a fair amount of discounting.

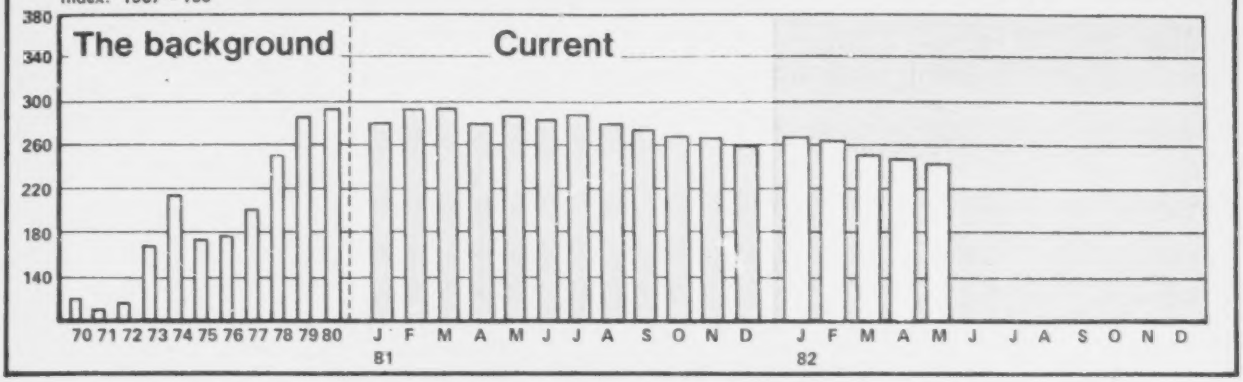
On the other hand, the energy price lull seems about over. Gasoline tags are moving up across the country. Add in continuing advances in electricity, and this is (or soon will be) the fastest rising price sector. ***PW***

This month's breakdown

	Latest level (May)	Percent change from: Month ago	Year ago
Bearings	334.0	0	13.9
Bolts, nuts, etc.	273.6	0	3.0
Chemicals, inorganic	317.0	1.1	11.5
Chemicals, organic	377.5	–1.0	–8.2
Concrete products	297.1	0.1	2.0
Cutting tools, small	277.0	0.1	5.7
Electrical instruments	258.3	0	15.8
Electric lamps (bulbs)	288.0	1.4	7.3
Fans and blowers	334.8	0	6.6
Fittings, industrial	309.1	0	2.0
Foundry and forge products	346.0	0	6.0
Fuel oil (residual)	1189.4	0.9	–9.8
Furniture, commercial	275.5	0.4	6.9
Gasoline	610.0	–4.2	–18.2
Glass, flat	216.2	0	2.9
Glass containers	357.4	0	6.6
Gypsum products	259.4	–1.3	–0.7
Hand tools	333.2	0.5	7.6
Hand tools, power driven	221.3	0.7	4.3
Industrial furnaces	352.4	1.0	5.2
Integrating and measuring instruments	212.7	0.8	8.5
Internal combustion engines	324.9	1.5	9.3
Lubricating oil	888.1	0	0.8
Lumber millwork	275.8	–0.2	0.4
Material handling equipment	288.3	–0.1	4.0
Metal containers	330.1	0.1	5.1
Metal mill shapes (nonferrous)	299.8	–0.1	–1.2
Metal tanks	312.4	–0.1	3.2
Motors and generators	311.7	0	7.4
Motor trucks	276.5	2.3	6.1
Office and store equipment	151.0	0	2.9
Paperboard	258.8	–0.9	0
Paper boxes and shipping containers	251.4	–0.3	3.2
Paper office supplies	223.3	0.6	4.6
Paint	265.1	2.2	6.0
Plastic resins	285.4	–0.2	–0.9
Precision measuring tools	238.6	1.1	8.6
Pumps and compressors	348.6	0.4	8.3
Refractories	340.4	0.2	12.0
Rubber belts and belting	330.4	0.3	15.8
Scales and balances	234.9	0	6.1
Steel products	350.9	0	6.1
Switchgear	260.0	0.2	4.6
Textiles, synthetic fibers	164.3	1.4	5.1
Textiles, gray fabrics	145.5	–0.2	–0.2
Tires and tubes	255.0	0.2	1.5
Transformers and power regulators	222.8	0.2	7.9
Valves, industrial	327.9	0.1	4.3
Welding equipment	267.2	0	2.8
Wire and cable	208.2	0.1	0

PW raw material price barometer

Latest month 246.6
Month before 247.4
Year ago 288.9



Latest spot market prices

Ferrous metals

	Latest price	Previous month	Year ago
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	347.00	347.00	347.00
Steel, structural shapes, Pitts., cwt	22.90	22.90	21.65
Steel, structural shapes, Chi., cwt	22.90	22.90	21.65
Steel, structural shapes, Los Angeles, cwt	24.40	23.40	20.40
Steel, bars, dlvd. Phila., cwt., merchant quality	14.35	14.35	14.35
Steel, bars, Pitts., cwt	14.35	14.35	14.35
Steel, bars, C.R., Pitts., cwt	31.00	31.00	29.20
Steel, plates, Chi., cwt	24.25	24.25	23.25
Steel, plates, Pitts., cwt	24.25	24.25	23.25
Steel, plates, H.R., Pitts., cwt	20.80	20.80	19.50
Steel, sheets, C.R., Detroit, cwt	24.65	24.65	23.15
Steel, strip, C.R., Chi., cwt	29.05	29.05	28.85
Steel, basic wire, Pitts., cwt	23.65	23.65	24.20

Nonferrous metals

Aluminum, ingot, lb., (market place)	0.76	0.76	0.76
Alum. sheet, H14 3003, .04 in., 48x144, mill fin., lb.	1.02	1.02	1.02
Antimony, in alloy, lb.	2.00	2.00	2.00
Beryllium-copper, cost ingot, lb.	4.60	4.60	4.11
Brass, red, 85%, [sheet], lb.	1.17	1.20	1.26
Brass, yellow, [sheet], lb.	1.11	1.14	1.20
Cadmium, ton lots, lb.	1.10	1.10	2.00
Copper, electrolytic, wire bars, refd., lb.	0.74	0.78	0.85
Copper sheet, over 24 in., lb.	1.26	1.29	1.35
Lead, common, N.Y., lb.	0.25	0.26	0.38
Magnesium, pig, ingot, [99.8%], lb.	1.34	1.34	1.25
Mercury, 20 fl. lots, N.Y., fl.	365.00	364.00	415.00
Molybdenum Climax Oxide/bags, lb.	8.50	8.50	9.35
Nickel, electrolytic, producer, lb.	3.20	3.20	3.50
Platinum, producer, oz.	475.00	475.00	475.00
Silver, N.Y., oz.	6.44	7.13	10.20
Tin, Straights, N.Y., lb.	6.53	6.59	6.46
Zinc, Prime West, East St. Louis, lb.	0.350	0.380	7.459
Zinc, die casting alloy, No. 3, lb.	0.415	0.445	0.518

Chemicals

Acrylonitrile, tanks, lb.	0.460	0.460	0.440
Ammonia, anhydrous, fertilizer, wholesale, tanks, ton	210.00	210.00	210.00
Benzene, petroleum, tanks, Houston, gal.	1.52	1.52	1.77
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	17.50
Cresylic acid [over 25%], tanks, lb.	0.66	0.66	0.62
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	0.101	0.101	0.072
Glycerine, synthetic, tanks, lb.	0.805	0.805	0.760
Linseed oil, raw, bulk, carlots, lb., f.o.b. N.Y.	0.315	0.345	0.345
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	0.715	0.715	0.750
Naphthalene, crude, tanks, lb.	0.220	0.220	0.205
Phthalic anhydride, tanks, lb.	0.42	0.42	0.38
Polyethylene resin, low density liner film grade (market price), lb.	0.27	0.29	0.39
Polypropylene, homopolymer grade (market price), lb.	0.38	0.38	0.40
Polystyrene, general purpose grade (market price) lb.	0.37	0.38	0.45
Resin, W.G. grade, carlots, f.o.b., N.Y., cwt.	46.50	46.50	45.00
Shellac, bone dry, N.Y., lb.	1.65	1.65	1.65
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	0.375	0.375	0.410
Sulphur, crude, ex-terminal, Tampa, Fla. long-ton	147.50	147.50	140.00
Sulphuric acid, 66%, commercial, tanks, ton	93.69	93.69	78.19
Titanium dioxide, anatase, reg., carlots lb.	0.69	0.69	0.63
Xylene tanks, gal.	1.45	1.48	1.50

Paper

	Latest price	Previous month	Year ago
Bond paper, No. 1 sulfite, water marked, 20 lb., 4 cartons, cwt.	68.60	68.60	68.60
Gummed sealing tape, carton	15.70	15.70	14.80
Offset paper, No. 1 Grade	49.70	49.70	40.55
Folding boxboard, white clay coated 80 bright, ton	403.62	404.86	399.29
Wrapping paper, std. distribution cost, kraft, basis wt. 50 lb., roll	28.00	26.00	21.00
Kraft linerboard, 42 lb., unbleached, ton	270.00	300.00	300.00

Building materials

Lumber, 2x4 fir, mbf, cl.	307.49	306.79	332.50
Lumber 2x2, pine, mbf, cl.	284.55	284.47	307.15
Plywood, plyform, 3/4", msi, cl.	581.05	581.75	608.37
Plywood, 5-8", msf, cl.	329.79	335.38	360.24
Cement, bulk, ton, fl.	62.42	62.59	60.22
Sand, ton, cl.	6.07	5.03	6.09
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	45.77	46.12	44.79
Crushed stone, 1½", ton, cl.	7.86	7.74	7.49
Concrete blocks, sand/gravel, 8"x8"x16", ea., fl.	0.74	0.74	0.68
Gypsum sheathing, ½"x1"x8", msf, fl.	154.57	154.40	147.38
Brick, common, per thousand, fl.	175.60	174.80	163.06
Asphalt paving, AC-20	161.57	162.29	N.A.
Concrete sewer pipe, 12", prem. joint, per foot, cl.	6.62	6.69	6.46

Textiles

Burlap, 10 oz., 40", N.Y., yd.	0.240	0.244	0.246
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.00	1.00	1.02
Cotton middling, 1", N.Y., lb.	0.604	0.641	0.810
Printcloth, 48", 80x80, N.Y., spot, yd.	0.630	0.630	0.850
Army duck, 37", 13 oz., yd.	1.70	1.70	1.70
Blended printcloth, 64", 78x54, yd.	0.590	0.625	0.770
20s combed yarns	1.72	1.72	1.88
Wool tops, N.Y., lb.	3.60	3.60	3.60

Hides and rubber

Hides, cow, light native, packers, Chi., lb.	0.435	0.475	0.460
Rubber, No. 1 std., ribbed smoked sheets, N.Y., lb.	0.468	0.460	0.580

Fuels

Fuel oil, No. 6 or Bunker C, Gulf., bbl.	25.75	24.75	23.75
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	31.30	31.30	35.50
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	0.920	0.880	1.048
Gasoline, 94 oct., reg., Chi., tank car, gal.	0.956	0.855	1.035
Heating oil, No. 2, Chi., bulk, gal.	0.945	0.850	1.005
Heating oil, No. 2, N.Y., bulk, gal.	0.943	0.903	1.033
Heavy fuel, PS 400, Los Angeles, rack, bbl.	25.10	23.70	25.50
Jet kerosene, gal.	0.900	0.840	N.A.
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	0.34	0.34	0.46

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

NOTE

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